

CBO TESTIMONY

**Statement of
Robert A. Sunshine
Assistant Director**

Issues in Budgeting for Operations in Iraq and the War on Terrorism

**before the
Committee on the Budget
U.S. House of Representatives**

January 18, 2007

This document is embargoed until it is delivered at 2:00 p.m. (EST), Thursday, January 18, 2007. The contents may not be published, transmitted, or otherwise communicated by any print, broadcast, or electronic media before that time.



**CONGRESSIONAL BUDGET OFFICE
SECOND AND D STREETS, S.W.
WASHINGTON, D.C. 20515**

Report Documentation Page				Form Approved OMB No. 0704-0188	
Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.					
1. REPORT DATE 18 JAN 2007		2. REPORT TYPE		3. DATES COVERED 00-01-2007 to 00-01-2007	
4. TITLE AND SUBTITLE CBO Testimony. Issues in Budgeting for Operations in Iraq and the War on Terrorism				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Congressional Budget Office,Ford House Office Building, 4th Floor,Second and D Streets, SW,Washington,DC,20515-6925				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution unlimited					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT	18. NUMBER OF PAGES 9	19a. NAME OF RESPONSIBLE PERSON
a. REPORT unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified			

Mr. Chairman, Congressman Ryan, and Members of the Committee, I appreciate the invitation to appear before you today to discuss budgeting for operations in Iraq and the war on terrorism. My statement is based on the Congressional Budget Office's (CBO's) analyses of and research on that issue over the past few years. CBO has been asked, on a number of occasions, to determine how much has been spent and how much might be spent in the future for those activities.

This testimony will briefly discuss appropriations and obligations to date for operations in Iraq and the war on terrorism. It will also offer an overview of budgeting and reporting issues.

Appropriations and Obligations to Date

Since September 2001, by CBO's reckoning, the Congress has appropriated \$503 billion for military operations and other activities related to Iraq and the war on terrorism (see Table 1).¹ Little of the funding used to finance the war has been subject to the budgetary constraints imposed on regular appropriations. Rather, such funding has been exempted from normal budget procedures in several ways. One method has been to designate it as an emergency requirement, and a second has been to deem it for "overseas contingency operations related to the global war on terrorism"—both of which have allowed for exemption under provisions of the budget resolutions in effect during that period. A third method has been to provide a specific allocation in the budget resolution and authorize an adjustment to that limit to accommodate additional spending if necessary.

About \$463 billion of the \$503 billion was allocated to the Department of Defense (DoD), including about \$448 billion for U.S. military operations and other defense activities and about \$15 billion for support of indigenous security forces.² Because some of those funds are designated for classified purposes, about which little information is publicly available, CBO cannot provide a precise estimate of how much has been obligated to date. However, of the funds appropriated through fiscal year 2006, about \$393 billion, CBO estimates that at least 85 percent—\$335 billion—had been obligated through November 2006. That judgment is based on an analysis of obligation reports provided by DoD.³ For fiscal year 2007, \$70 billion has been appropriated thus far, as part of the Department of Defense Appropriations Act, 2007 (Public Law 109-289). DoD obligation reports indicate

-
1. The \$503 billion figure shown here differs slightly from amounts estimated by the Congressional Research Service and the Government Accountability Office, mainly because of differences in how to count certain transfers from DoD's budget for activities besides the war.
 2. Funding for indigenous security forces is used to train and equip local military and police units in Iraq and Afghanistan. Since 2005, those funds have been appropriated to the Department of Defense, whereas before that, they were appropriated to the Executive Office of the President.
 3. The most recent reports provided by DoD cover obligations through November 2006.

Table 1.

Estimated Appropriations Provided for Operations in Iraq and the War on Terrorism, 2001 to 2007

	By Fiscal Year, in Billions of Dollars							Total, 2001- 2007
	2001	2002	2003	2004	2005	2006	2007 ^a	
Military Operations and Other Defense Activities								
Iraq ^b	0	0	46	68	53	87	52	306
Other ^c	<u>14</u>	<u>18</u>	<u>34</u>	<u>21</u>	<u>18</u>	<u>24</u>	<u>14</u>	<u>142</u>
Subtotal	14	18	80	88	70	111	67	448
Indigenous Security Forces ^d								
Iraq	0	0	0	5	6	3	2	16
Afghanistan	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>2</u>	<u>2</u>	<u>5</u>
Subtotal	0	0	0	5	7	5	3	20
Diplomatic Operations and Foreign Aid								
Iraq	0	0	3	15	1	3	0	22
Other	<u>*</u>	<u>2</u>	<u>5</u>	<u>2</u>	<u>2</u>	<u>1</u>	<u>0</u>	<u>12</u>
Subtotal	*	2	8	17	3	4	0	34
Total	14	19	88	111	81	120	70	503

Source: Congressional Budget Office.

Notes: Details may not add up to totals because of rounding.

* = between zero and \$500 million.

- a. At the current rate of military operations, the funding provided to date in 2007 will not be sufficient to pay for all costs that will be incurred this fiscal year. Consequently, additional appropriations will probably be provided in 2007.
- b. The Congressional Budget Office estimated funding provided for Operation Iraqi Freedom by allocating funds on the basis of obligations reported by the Department of Defense (DoD). For more information about funding for Operation Iraqi Freedom, see Congressional Budget Office, *Estimated Costs of U.S. Operations in Iraq Under Two Specified Scenarios* (July 13, 2006).
- c. Includes Operation Enduring Freedom (involving operations in and around Afghanistan), Operation Noble Eagle (for homeland security missions, such as combat air patrols, in the United States), the restructuring of Army and Marine Corps units, classified activities other than those funded by appropriations for the Iraq Freedom Fund, and other operations. (For fiscal years 2005 through 2007, funding for Operation Noble Eagle has been intermingled with regular appropriations for the Department of Defense; that funding is not included in this table because it cannot be identified separately.)
- d. Funding for indigenous security forces, which was appropriated in accounts for diplomatic operations and foreign aid (budget function 150) in 2004 and in accounts for defense (budget function 050) since 2005, is used to train and equip local military and police units in Iraq and Afghanistan.

that about \$16 billion of that amount had been obligated as of November 2006, bringing the department's total obligations to more than \$350 billion.

Because most appropriations for operations in Iraq and the war on terrorism appear in the same budget accounts with appropriations for DoD's other activities, determining what has actually been spent is difficult. However, CBO estimates that appropriations to DoD for Iraq and the war on terrorism increased total federal outlays by about \$310 billion through fiscal year 2006. About \$95 billion of those outlays occurred in fiscal year 2006, CBO estimates. For fiscal year 2007, CBO estimates that funding for operations in Iraq and the war on terrorism will add between \$115 billion to \$120 billion to total outlays, assuming that additional appropriations are provided during the course of the year.

In addition to funding for military operations, the Congress has appropriated about \$40 billion for diplomatic operations in and aid to Iraq, Afghanistan, and other countries assisting the United States in Iraq and in the war on terrorism, including about \$5 billion in 2004 for support to indigenous Iraqi security forces. About half of the \$40 billion total (\$21 billion) has been appropriated for the Iraq Relief and Reconstruction Fund, almost all of which has been obligated to date. On the basis of information from the Department of State, CBO estimates that most of the remaining \$19 billion has also been obligated.

Of the funds appropriated to the Iraq Relief and Reconstruction Fund, CBO estimates that about \$16 billion has been spent. But CBO does not have enough information to determine how much of the remaining \$19 billion has been expended.

Estimating the Costs of Military Operations

DoD estimates the future costs of the war using a combination of cost models, surveys of damaged and destroyed equipment, and analyses of actual costs incurred to date. The department's principal model for estimating war costs is the Contingency Operations Support Tool (COST), which was developed by the Institute for Defense Analyses.⁴ That model uses cost factors derived from actual expenditures for prior operations to estimate operation and support costs for deploying units. In addition to those estimates, each military service produces separate estimates of the cost of repairing or replacing damaged or destroyed equipment and the amounts necessary to restore units and materiel to

4. According to 10 U.S.C. 101(a)(13), a "contingency operation" is one in which members of the armed forces are or may become involved in military actions, operations, or hostilities against an enemy of the United States. It can also be an operation in which reserve-component members are called to active status or any other national emergency declared by the President or the Congress.

predeployment conditions. The services also estimate costs associated with the reorganization and modernization of the armed forces. Those sums, when added together, have provided the basis for DoD's budget requests related to the war.

The actual obligations incurred for military operations in Iraq and the war on terrorism are tracked by the Defense Finance and Accounting Service, which issues monthly reports on financial obligations for each of the major ongoing operations (Iraqi Freedom, Enduring Freedom, and Noble Eagle).⁵ The reports show obligations by the year in which the funds were appropriated and by military service.

Budgeting and Reporting Issues

CBO has been asked by the Congress on several occasions to estimate the future costs of operations in Iraq and the war on terrorism. Estimating war costs is always difficult because of uncertainty about the pace and scale of future military operations. However, better estimates could be provided to the Congress if more information was available on the costs incurred to date. In particular, CBO has identified four main concerns regarding the current process of budgeting and cost reporting for operations in Iraq and the war on terrorism.

The Timing of Budget Requests

Since fiscal year 2001, funding for activities in Iraq and the war on terrorism has been provided through a combination of partial-year appropriations (sometimes referred to as bridge appropriations), which are enacted near the beginning of the fiscal year, and midyear supplemental appropriations. If the bridge appropriations run out before enactment of the midyear appropriations, DoD can pay for war-related expenses using funds meant for its regular activities, which are then reimbursed upon enactment of the midyear supplemental. In the event that the midyear appropriations are delayed and funds for DoD's regular activities begin to run out, the department has some options. One option is to use its authority to transfer funds among various appropriation accounts (for instance, from procurement accounts to operation and maintenance accounts), although that authority is limited. In addition, DoD can invoke the Feed and Forage Act (41 U.S.C. 11), which allows the President to obligate funds without an appropriation for the purpose of sustaining troops in the field. That authority was invoked immediately after the terrorist attacks on September 11, 2001, although ultimately

5. Operation Enduring Freedom includes military operations in and around Afghanistan and other overseas counterterrorism activities. Operation Noble Eagle refers to homeland security missions, such as combat air patrols over major metropolitan areas, undertaken by DoD in response to the terrorist attacks of September 11, 2001.

it was not used because the Congress quickly provided the necessary appropriations.⁶

Some policymakers and analysts have suggested that, to better assist in planning future defense budgets, DoD should include the entire fiscal year's cost of operations in Iraq and the war on terrorism in its regular budget request. That approach would have both positive and negative consequences. On the positive side, including war costs in the regular request would give the Congress more time to debate and modify the budget request for those activities. It would also give the budget committees more information about potential budgetary effects that they may wish to consider in crafting a budget resolution. Further, fully funding those operations at the beginning of the fiscal year would help DoD avoid any potential funding issues that might arise from a delay in enacting midyear supplemental appropriations. On the negative side, budgeting for activities in Iraq and the war on terrorism in combination with the regular request could result in less clarity about which funds would go to war-related operations and which were intended strictly for other activities, unless separate budget accounts were established to distinguish the two purposes. In addition, submitting the request at the beginning of the fiscal year could lead to less accurate cost projections because the budget must be submitted in February (eight months prior to the start of the fiscal year).⁷

Supplemental Budget Requests

DoD's supplemental budget requests often do not provide enough detail to determine how the department develops its budget requests. The amount of justification material that DoD provides in its regular budget for activities besides the war and the documentation that it submits for war-related operations differ substantially. The \$440 billion requested by DoD for its regular activities in fiscal year 2007 was supported by very detailed justification documents. By contrast, DoD's funding requests related to the war have been accompanied by relatively little backup material. For instance, the backup material for the department's original 2006 supplemental request, which totaled about \$68 billion, included only five pages on operation and maintenance costs, even though those costs constituted almost half (about \$33 billion) of the request.

In June 2006, DoD provided the appropriations committees a package of information on the \$50 billion that the Administration had requested for war-related activities for fiscal year 2007. Compared with previous submissions, that

6. The authority of the Feed and Forage Act is limited to obligations for items meant to sustain troops in the field, such as subsistence clothing, fuel, quarters, transportation, and medical supplies. It cannot be used to purchase additional weapons or to support military hardware.

7. Much of agencies' budget preparation occurs long before the February budget submission.

material provided more detail on the request, although not enough to enable analysts to understand how the costs were estimated or to explain how the funding requirements compared with those of previous periods.

Tracking Actual War-Related Obligations and Outlays

Regardless of when the funds for operations in Iraq and for the war on terrorism are provided, they are generally recorded in the same appropriation accounts that fund DoD's other activities, making it difficult to sort out how much is ultimately spent on the war.

For fiscal year 2006, the Congress appropriated about \$218 billion to DoD's operation and maintenance accounts. Of that amount, about \$72 billion was appropriated for war-related activities and about \$146 billion was appropriated for DoD's regular operating costs. But the standard budget execution reports submitted to the Office of Management and Budget do not distinguish between those war and nonwar expenditures, making it difficult to determine how much has actually been spent for activities related to Iraq and the war on terrorism.

The Defense Finance and Accounting Service issues monthly reports that track war-related obligations, but they provide limited information. According to those reports, about \$98 billion was obligated for military operations in Iraq and the war on terrorism in fiscal year 2006. Of that amount, almost 25 percent (\$23 billion) was allocated for purposes described as "other." Little information was provided to suggest how those "other" funds were obligated. Without a better understanding of those expenditures, determining whether such costs will be incurred in future years is difficult. Moreover, the extent to which the reports capture obligations for classified activities is not clear. Relying on conference reports for various supplemental appropriation acts, CBO estimates that at least \$25 billion has been appropriated for classified activities since 2001. In addition, the obligation reports have not contained information on the pace of operations—such as troop levels, flying hours, or vehicle miles—in each month. Such information would be useful in analyzing cost variations, which CBO and other government analysts could use to better estimate future spending on the war.

Setting up separate budget accounts might help in tracking the obligations and outlays of war-related appropriations, but implementation of such an accounting structure might be difficult. For instance, it would necessitate distinguishing between the basic pay of troops (which is part of the regular defense budget) and their additional combat-related pay (which is attributable to the war).

The Distribution of Data and Information

CBO frequently has difficulty obtaining monthly reports on war obligations and other data. Often the agency receives that information months after the data are

officially approved for release. That problem could be addressed by establishing a standard, more-comprehensive distribution list for the war obligation reports and other data. Having access to the COST model that DoD uses to formulate its supplemental requests or to the data and methodology underlying the model would also be helpful. In November 2003, this Committee formally requested that DoD provide CBO access to the COST model, but the department has not yet done so.